Economic Governance Issues and Bangladesh Experience of Growth and Governance

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Ladies and Gentlemen,

As you can see we have a very serious and controversial subject to discuss today. The very subject is compelling me to venture into the domain of economists which I am not by profession. During the next half an hour, I will share my working experiences both in private and public sector with you and then, probably, attempt to link between theories and realities.

To understand economic governance in Bangladesh, let us attempt to create a business-school-like case-study situation:

SCENARIO - A

A group of economists are confined in a room and are presented with the following economic and social indicators of an unknown country, whose only identity to them is that it belongs to LDC group:

Table 1: Selected Economic and Social Indicators of an Unknown Country

Indicators	Unit	FY1996	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006
Economic								
GDP Growth	%	4.62	5.27	4.42	5.26	6.27	5.96	6.71
Manufacturing Growth	%	6.41	6.68	5.48	6.75	7.10	8.19	10.45
Industrial Growth	%	6.98	7.44	6.53	7.26	7.60	8.28	9.56
Agricultural Growth	%	3.10	3.14	0.01	3.08	4.09	2.21	4.49
Export Growth	%	11.8	12.43	-7.44	9.39	16.10	13.83	18.98
Private Investment as % of GDP	%	13.6	15.8	16.8	17.2	17.8	18.3	18.7
FDI Inflow (In US$) *	Mill	14	79	52	268	460	800	–
Natural Gas Production Avg/Day	MCF	700	1,000	1,075	1,155	1,235	1,355	1,600
Demographic & Social								
Population	Mill	121.2	130.0	132.0	133.4	135.2	137.0	138.8
Population Density per Kilometer	No.	815	880	892	904	916	928	941
Gender Equality Index (WEF)	Rank	1st among South Asia and All Muslim Countries, 4th in Asia.						
Social Sector Budget	%	Spends most on education (as % of GDP) than any South Asian Countries.						
Military Expenditure	%	Lowest in South Asia (as % of GDP).						
Access to Safe Drinking Water	%	–	–	–	–	–	–	96.3
Child Immunization	%	Highest Immunization Rate (measles 77%, DPT 85%) even higher than USA						

Source: Ministry of Finance of the Unknown County, UNCTAD, World Economic Forum.
* indicates Calendar Year. Data for 2005 is estimated. – indicated Data not Available.

We can predict with considerable confidence that economists will be unanimous in their praise of economic governance of this particular country as a laudable example of economic miracle among LDCs.

SCENARIO - B

The same group of economists are now presented with the following Governance Indicators developed by the World Bank/IMF, Competitive Indicators developed by World Economic Forum (WEF) through a local think-tank named Centre for Policy Dialogue (CPD) and Corruption Indicators developed by Transparency International – Bangladesh (TIB). Like before, they are completely ignorant about the identity of this country:

Table 2: Selected Governance Indicators of an Unknown Country

Voice and Accountability	2004	2002	2000	1998	1996
Estimate (-2.5 to + 2.5)	-0.69	-0.57	-0.34	-0.17	-0.33
Percentile Rank (0-100)	28.6	28.8	38.7	44.5	41.9
Standard Deviation	0.15	0.17	0.22	0.23	0.21
Number of surveys/polls	9	8	6	4	4
Political Stability	2004	2002	2000	1998	1996
Estimate (-2.5 to + 2.5)	-1.24	-0.65	-0.55	-0.43	-0.53
Percentile Rank (0-100)	11.7	26.5	28.5	26.7	26.8
Standard Deviation	0.21	0.21	0.27	0.27	0.32
Number of surveys/polls	9	8	6	4	4
Government Effectiveness	2004	2002	2000	1998	1996
Estimate (-2.5 to + 2.5)	-0.72	-0.55	-0.47	-0.38	-0.67
Percentile Rank (0-100)	26.4	31.8	35.5	39.3	22.3
Standard Deviation	0.16	0.15	0.19	0.25	0.24
Number of surveys/polls	11	10	7	4	4
Regulatory Quality	2004	2002	2000	1998	1996
Estimate (-2.5 to + 2.5)	-1.15	-1.05	-0.16	-0.08	-0.54
Percentile Rank (0-100)	13.3	14.8	40.1	41.8	26.5
Standard Deviation	0.19	0.18	0.27	0.33	0.27
Number of surveys/polls	10	9	6	4	5
Rule of Law	2004	2002	2000	1998	1996
Estimate (-2.5 to + 2.5)	-0.86	-0.74	-0.65	-0.72	-0.68
Percentile Rank (0-100)	22.2	27.6	29.9	25.9	27.1
Standard Deviation	0.13	0.13	0.18	0.21	0.18
Number of surveys/polls	13	12	10	7	6
Control of Corruption	2004	2002	2000	1998	1996
Estimate (-2.5 to + 2.5)	-1.09	-0.95	-0.6	-0.4	-0.47
Percentile Rank (0-100)	10.3	16.8	33.9	43.2	35.3
Standard Deviation	0.14	0.14	0.16	0.21	0.24
Number of surveys/polls	10	10	8	5	4

Source: GRICS: Governance Research Indicator Country Snapshot,
http://info.worldbank.org/governance/kkz2004/country_report.asp?countryid=20

Table 3: Global Competitiveness Ranking of an Unknown Country

Indices	GCI 2004	GCI 2005
GCI Rank	**102**	**110**
Technology Index	*100*	*101*
Innovation Sub-Index	95	105
ICT Sub-Index	101	112
Technology Transfer Sub-Index	58	59
Public Institutions Index	*104*	*117*
Contracts and Law Sub-Index	97	104
Corruption Sub-Index	104	117
Technology Index	*74*	*83*
Macro-economic Stability Sub-Index	62	67
Country Credit Rating	79	86
Global Expenditure Waste	75	85

Source: Global Competitiveness Report, 2004 and 2005, WEF and CPD.
Cited in CPD Occasional Paper Series 59, Business Competitiveness Environment
in Bangladesh (2005): Domestic Perceptions and Global Comparison

Table 4: Corruption Perception Index and Ranking of an Unknown Country

Year	2001	2002	2003	2004	2005
CPI Score	0.4	1.2	1.3	1.5	1.7
Survey Used	3	5	8	5	7
Standard Deviation	2.9	0.7	0.7	-	0.5
High-Low Range	-1.7–3.8	0.3–2.0	0.3–2.2	-	1.0–2.4
Confidence Range	-	-	-	1.1–1.9	1.4–2.0
Rank	**1**	**1**	**1**	**1**	**1**

Source: Global Corruption Report 2006, Transparency International. Rank 1 means Most Corrupt.

We can predict with similar degree of confidence that the same group of economists will now denounce the governance quality of this country and are expected to label it as an example of "Failed State" with no economic future. We can imagine the shock and bewilderment of the economists when they will be told that both the set of data belong to the same country and the country is our beloved Bangladesh.

So, where is the *paradox*?

Let me just remind you that second set of data cited above are mostly subjective. Is there any inherent weakness in data compilation and analysis of these types of subjective studies?

To get an insight on the above issue, let me refer to a recent presentation entitled "*The International Governance Agenda and Its Limitations for Development in Bangladesh*" by Dr. Mushtaq H Khan, Professor of Economics, SOAS, University of London. Mr. Khan is a distinguished Bangladeshi economist teaching abroad. He identified that *from a developing country perspective, the many of the "good governance" agenda advocated by the Bretton Woods Institutions (like democracy, accountability, anti-corruption, rule of law and so on) are desirable on their own terms. It is based on a series of economic theories and models that are theoretically very weak, and more seriously, not supported by historical evidence. Many of the econometric results supporting good governance reforms are methodologically weak and often*

provide misleading results. What is most worrying is that none of the really successful high-growth economies of the last fifty years achieved any success in good governance indicators before they became high-growth economies. In other words, the good governance agenda confuses means with ends, instruments with goals, and in so doing, takes our eyes off the really important governance reforms that need to be done in developing countries to accelerate economic and social development. Instead of trying to identify the critical governance capacities we require by looking at the really successful countries in Asia, the international governance agenda foists on developing countries a long series of governance reform tasks that may be impossible to achieve in poor countries. And even if progress could be made on some of these indicators, there is no evidence that this would significantly improve our growth and development prospects. Following are some figures representing governance data:

Figure 1: Market-Enhancing Governance: Composite Property Rights Index and Growth
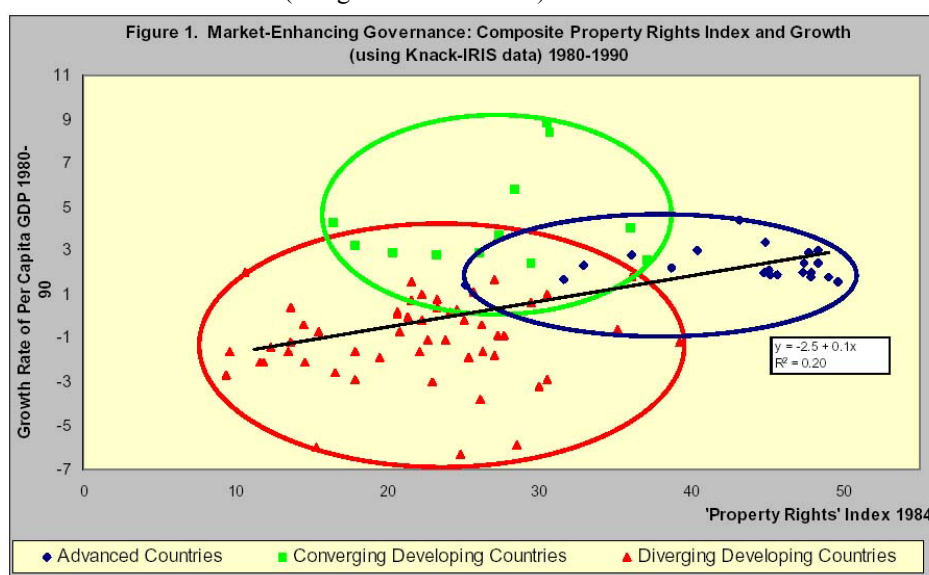(using Knack-IRIS data) 1980-1990

Figure 2: Market-Enhancing Governance: Composite Property Rights Index and Growth
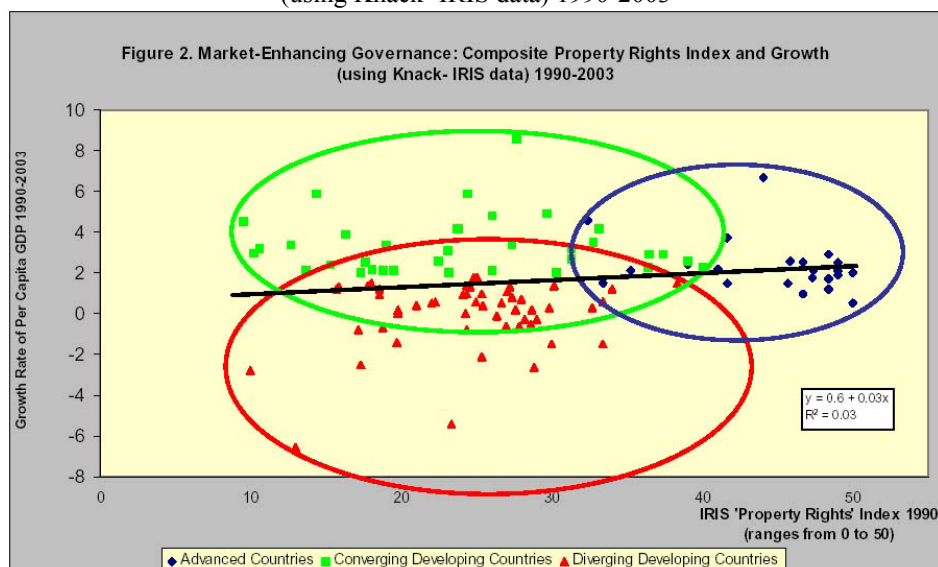(using Knack- IRIS data) 1990-2003

Figure 3: Governance and Growth 1990-2003 using World Bank Voice
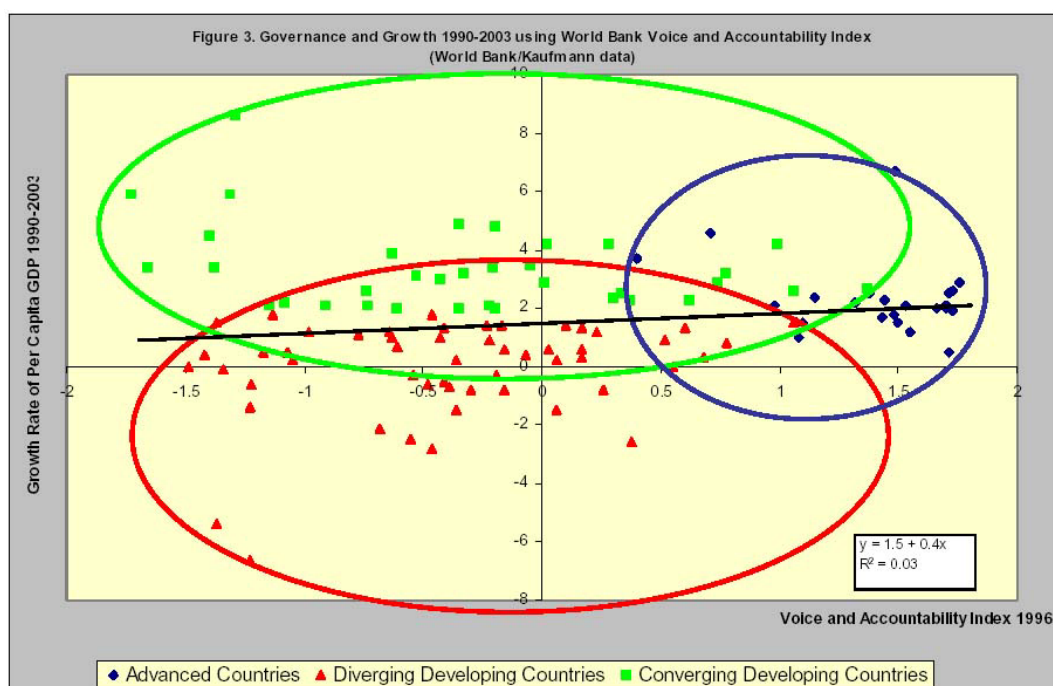and Accountability Index (World Bank/Kaufmann data)

Figure 4: Governance and Growth 1990-2003 using World Bank Political Instability
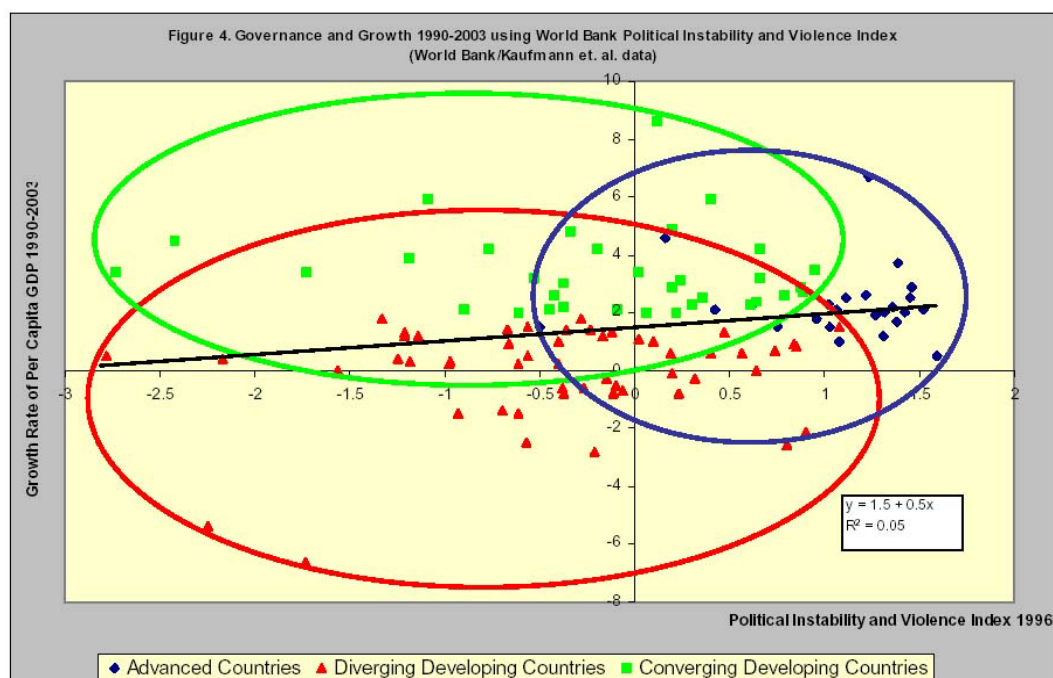and Violence Index (World Bank/Kaufmann et. al. data)

Figure 5: Governance and Growth 1990-2003 using World Bank
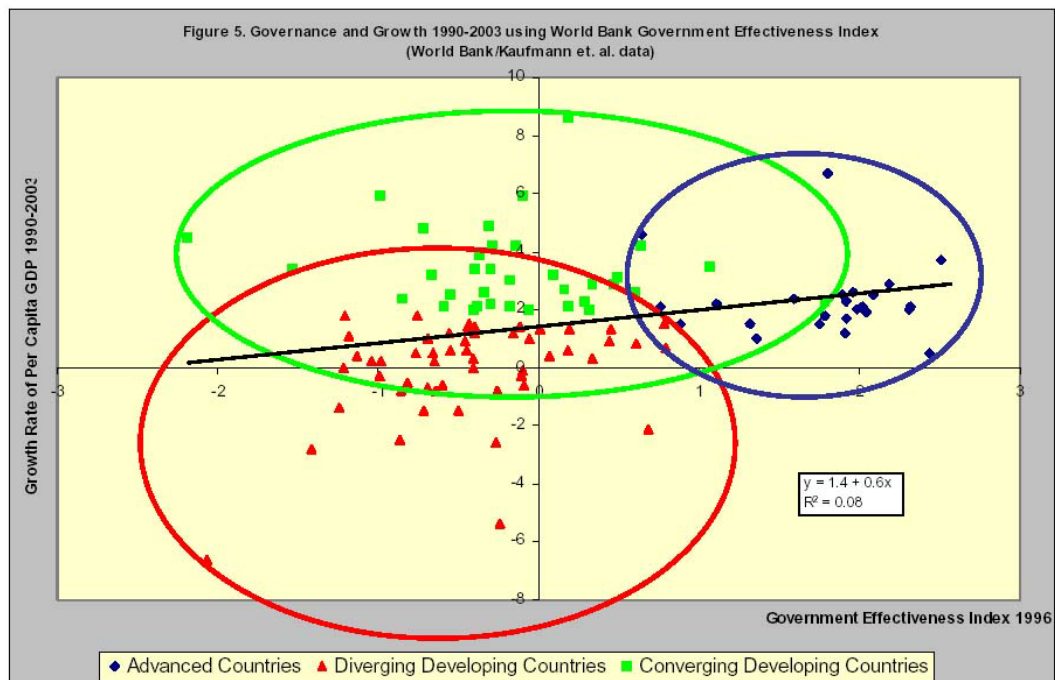Government Effectiveness Index (World Bank/Kaufmann et. al. data)

Figure 5. Governance and Growth 1990-2003 using World Bank Government Effectiveness Index
(World Bank/Kaufmann et. al. data)

y = 1.4 + 0.6x
R² = 0.08

Figure 6: Governance and Growth 1990-2003 using World Bank
Regulatory Quality Index (World Bank/Kaufmann et. al. data)

Figure 6. Governance and Growth 1990-2003 using World Bank Regulatory Quality Index
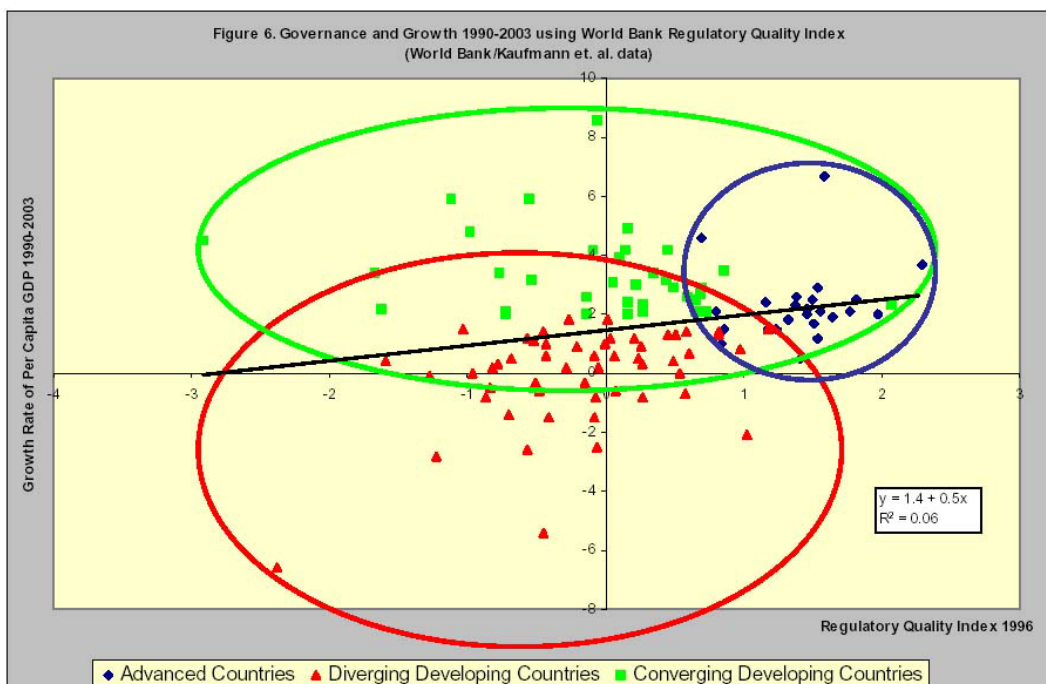(World Bank/Kaufmann et. al. data)

y = 1.4 + 0.5x
R² = 0.06

Figure 7: Governance and Growth 1990-2003 using World Bank Rule of Law Index
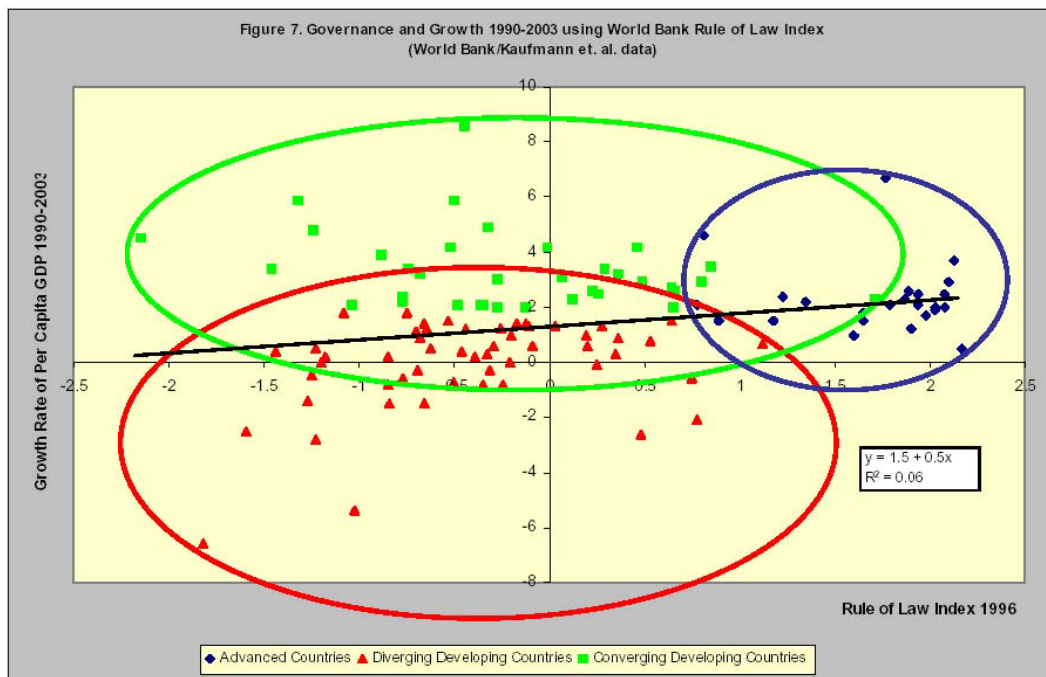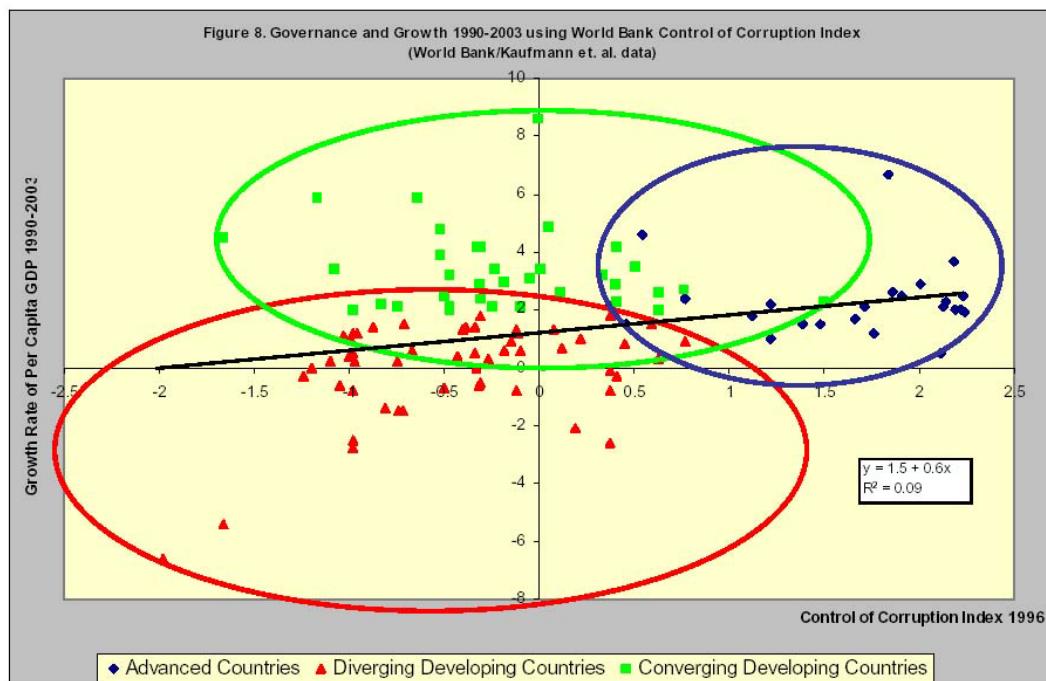(World Bank/Kaufmann et. al. data)

Figure 8: Governance and Growth 1990-2003 using World Bank
Control of Corruption Index (World Bank/Kaufmann et. al. data)

This is where I want to stop on data and correlations.

Now, I want to shift the discussions to governance issues and our challenges. As an ordinary and moderately knowledgeable citizen, I believe that the irrespective of governance quality, the economic transformation of Bangladesh for better has already begun. In this regard, you may like to read a recent World Bank publication titled "*Transforming Bangladesh into a Middle Income Country*" edited by Mr. Sadiq Ahmed. From various studies on governance, the definition I like most for its simplicity and easy understandability is that Governance Infrastructure comprises public institutions and policies created by governments as a framework for economic, legal and social relations. A beneficial governance infrastructure therefore, includes:

- An effective, impartial and transparent legal system that protects property and individual rights;
- Public institutions that are stable, credible and honest; and
- Transparent government policies that favor free market principles.

It is the paramount responsibility of the government of the day to build this infrastructure which, I believe, will immensely improve governance quality by eradicating corruption and ensuring justice. However, political machinery outside the governance, so-called civil society and academics are also duty bound to support such initiative taken by the government irrespective of party affiliation if they sincerely desire to see a prosperous Bangladesh.

From my experience both as a corporate management professional and government functionary, I recognize our failure to take full advantage of the global economic situation. It is a sad example of missed opportunity. But, where I disagree, with a section of politicians and so called civil society, is their almost reflexive tendency to blame government squarely for this failure. We should also appreciate that there exists other weaknesses and contradictions in our society equally detrimental like poor governance, responsible for pulling back the economic and social progress of Bangladesh. I have tried to list those contradictions from real life situations in our country taking the full personal risk to create controversy and debate. These are:

1. Anarchic democratic political system
   - Destruction and disruption in the name of political programs
   - Absence of civil behavior and dialogue
   - Ineffective parliament

2. Obscene and opaque / non-transparent electoral expenditure
   - Expenditure limit set by The "Representation of the People (Amendment) Ordinance, 2001" for a contesting candidate in the eighth parliamentary elections was a meager Tk. 500,000, whereas, actual cost may be few 100 times.

3. Undemocratic political party system
   - Quasi-Feudal party management style

4. Self-serving Fourth Estate
   - Extreme media distortion and bias
   - Serving media-owners personal interest

5. Lack of professionalism in bureaucracy
   - No progress on clustering of Ministries

6. Politicization of institutions and civil society
   - Partisan character of professional bodies like Economic Association of Bangladesh (EAB), Bangladesh Medical Association (BMA), Institution of Engineers Bangladesh (IEB), BAR Council representing economists, doctors, engineers and lawyers respectively. These institutional bodies are non-partisan by Charter which is now blatantly abused.

It will be impractical on our part to expect a major improvement in overall governance quality unless society is ready to accept, debate and finally, eradicate the entrenched imperfections in the system. In the absence of this step, incremental improvement of governance will continue because of peoples' expectation and pressure from development partners. However, this slow pace of reform may not be enough for quantum leap of transformation.

I want to conclude my deliberation with a sense of hope and accomplishment. I started my speech with an imaginary case study situation and now would like to conclude with real life case study of governance.

This time, it is the case of a government-owned commercial entity. Titas Gas Transmission & Distribution Co. Ltd is the largest natural gas marketing company in the country. This utility company was much maligned for its poor quality of services, corruption and inefficiency. Now, let us see what has happened at Titas Gas during the last 12 months:

Table 5: Performance Achievement of Titas Gas during FY2006

Indicators	Unit	FY2005	FY2006	Growth
Business Indicators				
Sales	Crore Taka	2,991	3,422	14%
Profit Before Tax	Crore Taka	239	300	26%
Accounts Receivable				
Government - Amount	Crore Taka	553	510	(8%)
Government - Months	Month	5.69	5.20	(9%)
Private - Amount	Crore Taka	793	650	(18%)
Private - Months	Month	4.60	3.30	(28%)
Total Receivable - Amount	Crore Taka	1,345	1,160	(14%)
Total Receivable - Months	Month	4.99	4.00	(20%)
Investment in Fixed Deposit	Crore Taka	89	250	181%

Indicators	Unit	FY2005	FY2006	Growth
System Loss Reduction				
July '05 to April '06	%	8.08%	5.56%	(31%)
Connectivity Regularization				
Domestic (Voluntary)	Number	-	51,200	-
	Crore Taka	-	22.50	Additional income
Industrial (Disconnection)	Number	-	249	-
	Crore Taka	-	10.00	Additional income
Capacity Building				
Introducing e-Governance	-	-	17 May	Commenced
Computerization of Customer Database	-	-	By October	To be Commenced

Source: Titas Gas T&D Co. Ltd, June 2006.

This spectacular result has been achieved through a strategy combination of setting proper vision and target, employing effective monitoring technique, ensuring staff motivation, applying transparent and corruption-free management style and, above all, providing strong leadership supported by political will.

If Titas Gas can do it, the whole nation can also do it.

Thank you.

Sources Acknowledged

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